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REPORT ON REVIEW OF SELECTED ACTIVITIES OF C.I.A. JANUARY 1961- GAC

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REPORT ON REVIEW
OF
SELECTED ACTIVITIES OF
THE CENTRAL INTELLIGENCE AGENCY
JANUARY 1961

BY

THE COMPTROLLER GENERAL OF THE UNITED STATES

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

B-133200

Honorable Paul J. Kilday, Chairman
Special Subcommittee, Central Intelligence Agency
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

Herewith is our report on review of selected activities of the Central Intelligence Agency, January 1961. The review was made for the purpose of determining whether the scope of the audit of the General Accounting Office could be expanded sufficiently to make reasonably comprehensive evaluations of CIA's activities that would be helpful to the Congress.

This review was made pursuant to the interest indicated by the Special Subcommittee at an executive hearing in May 1959. Following several meetings between representatives of the General Accounting Office and the CIA, the Director of Central Intelligence and the Comptroller General in October 1959 had an exchange of correspondence concerning the audit and concerning restrictions on undertaking reviews in the area of sensitive security operations. Various steps were taken by CIA to place the General Accounting Office in a position to make a comprehensive audit of the overt activities of CIA. Based on our review, however, we believe that under the existing security restrictions on the General Accounting Office audit of CIA activities, we do not have sufficient access to make comprehensive reviews on a continuing basis that would be productive of evaluations helpful to the Congress.

Our review of selected overt activities in the Intelligence Component disclosed certain matters which have been brought to the attention of the Agency, and which are discussed in detail in Appendix IV to this report. These matters relate to (1) the financing by CIA of certain Department of State activities which do not seem to be the primary responsibility of CIA, and such financing may have the effect of supplementing the appropriations of the Department of State and (2) the financing by CIA of certain Library of Congress activities which substantially transcend CIA's interest and responsibility. CIA officials advised us that corrective action is being taken.

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Inasmuch as we cannot, in our opinion, effectively accomplish any worthwhile audit objectives at CIA on a continuing basis, we plan to discontinue our audit of CIA activities.

We are prepared to discuss these matters with you should you so desire.

A copy of this report is being sent today to the Director of Central Intelligence.

Sincerely yours,

Comptroller General
of the United States

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REPORT ON REVIEW
OF
SELECTED ACTIVITIES OF
THE CENTRAL INTELLIGENCE AGENCY
JANUARY 1961

GENERAL COMMENTS

The General Accounting Office has made a review of selected activities of the Central Intelligence Agency (CIA) for the purpose of determining whether the scope of the General Accounting Office audit of CIA can be expanded sufficiently to make it productive of evaluations that would be helpful to the Congress.

Our review included an examination of the basic laws governing CIA activities, CIA regulations, instructions and other policy documents made available to us. We reviewed the internal controls over the utilization of funds, personnel, and property on a selective basis to the extent permitted under the audit limitations imposed by the Director of Central Intelligence in a letter dated October 16, 1959. Because of these limitations, which are summarized on pages 11 and 12 of this report, substantial segments of the review were limited to discussions with CIA officials responsible for the direction of the activities selected for review, and there was complete denial of access for discussion in the area of covert intelligence operations of the Plans Component. Comments on the specific activities included in our review are contained on page 13 of this report.

This review was made pursuant to the interest indicated by the Special Subcommittee on the Central Intelligence Agency of the Committee on Armed Services, House of Representatives, at an executive hearing in May 1959, which was followed by an exchange of correspondence between the Director of

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Central Intelligence and the Comptroller General, which correspondence is included in the appendices to this report. The review was started in January 1960 and was completed in January 1961.

Based on our review, we believe that the security restrictions placed upon the General Accounting Office audit of CIA activities will not permit reviews of CIA activities sufficiently comprehensive to be productive of evaluations helpful to the Congress. Detailed comments on the effect of the security restrictions on our audit are contained in the Findings and Conclusions section of this report. (See page 13 .)

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ORGANIZATION AND MANAGEMENT

The Central Intelligence Agency was established under authority contained in the National Security Act of 1947, for the purpose of coordinating the intelligence activities of the Government departments and agencies in the interest of national security. As set forth in this act, CIA is under the direction of the National Security Council, and it is the duty of CIA to advise on, and to make recommendations for the coordination of, intelligence activities relating to the national security; to correlate, evaluate, and disseminate intelligence relating to the national security; to perform services of a common concern to the intelligence agencies; and to perform such other functions as may be directed.

The authority necessary to the administration of CIA activities is provided in the Central Intelligence Agency Act of 1949. This act provides CIA with the authority considered to be essential to the administration of the covert operations and intelligence functions of the CIA.

ORGANIZATION OF CENTRAL INTELLIGENCE AGENCY

The activities of the Central Intelligence Agency are carried out by three major organizational components--Plans, Intelligence, and Support--under the direction of the Director of Central Intelligence. Each of these three major components is headed by a Deputy Director who is responsible to the Director.

Director of Central Intelligence

The Director of Central Intelligence is the head of the Central Intelligence Agency and is responsible for the proper performance of the Agency's functions. The Deputy Director of Central Intelligence assists the Director in the performance of his duties and acts as Director in the absence of the Director.

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The Director and the Deputy Director of Central Intelligence are appointed by the President by and with the advice and consent of the Senate. Either of these two positions may be held by commissioned officers of the armed services, but the two positions may not be occupied simultaneously by commissioned officers.

The staff of the Director of Central Intelligence includes an Inspector General who is responsible to the Director for conducting inspections and investigations throughout the Agency, including the survey and evaluation of the assignment and performance of the missions and functions for all CIA components, and the investigation of fraud, misuse of funds, conflicts of interest, and other matters.

Plans Component

The Plans Component, or Clandestine Services, is the organizational mechanism by which the Agency's espionage, counterespionage, and other covert operations are carried out. It is under the direction of the Deputy Director (Plans).

Support Component

The Support Component, under the direction of the Deputy Director (Support), is responsible for providing the overall administrative and other support necessary to the Agency's intelligence, operational, and related activities. Support responsibilities include legal, financial, communications, transportation, equipment, supply, personnel, training, security, management, and internal audit services and activities.

Intelligence Component

The Intelligence Component carries out the Agency's responsibilities for the overt collection, systematic organization, production and dissemination of substantive intelligence. It is under the direction of the Deputy Director (Intelligence).

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The functions of the Intelligence Component may be grouped in three general categories: the overt collection of intelligence, the collation of intelligence, and the production and dissemination of intelligence reports.

FINANCING OF CENTRAL INTELLIGENCE AGENCY ACTIVITIES

Funds for the performance by CIA of its activities are provided in the appropriations by the Congress to other Government departments and agencies, and are transferred to CIA in accordance with the authority from the appropriation committees and the approval of the Bureau of the Budget. The funds so transferred are available to CIA without regard to any limitations on the appropriations from which transferred.

CIA officials have advised us that the funds made available to finance CIA activities are subject to annual review by special subcommittees of the committees on appropriations of the House of Representatives and the Senate. We were advised that the congressional reviews are made in closed hearings and are based upon certain budget data submitted to the subcommittees and testimony of appropriate CIA officials. We understand that the determinations of the congressional subcommittees are not subject to further review or approval by the Congress.

In addition to the funds provided annually to meet the planned (budgeted) needs of CIA, CIA has contingency reserve funds available to it. CIA officials have advised us that because of the nature of their activities, it is not possible in the advance planning of the normal budget cycle to provide for all of the intelligence operating requirements in an ever changing world situation. For this reason, contingency reserve funds are available to CIA to meet its emergency needs. These contingency reserve funds are, in effect, supplemental appropriations which are made in advance of the need therefor.

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They are provided in advance because it has been determined that CIA's supplemental appropriation needs cannot be included in supplemental appropriations to other Government departments and agencies without leading to the disclosure of the amounts included therein for CIA activities.

We understand that the budget estimates for each year are submitted to the Bureau of the Budget for review, and CIA funds, including contingency reserve funds, are subject to Bureau of the Budget apportionment.

AUDITS BY THE GENERAL ACCOUNTING OFFICE

LEGAL LIMITATIONS ON THE AUDIT OF
CENTRAL INTELLIGENCE AGENCY ACTIVITIES

We understand that intelligence operations require the use of methods which do not always conform to law and regulations, and that it is essential to a secure and effective intelligence service to withhold fiscal and other information revealing the specific nature, scope, and methods of intelligence operations, or the identity of persons so engaged from unauthorized disclosure. The authority for CIA to withhold such information is provided in the National Security Act of 1947, and the Central Intelligence Agency Act of 1949.

Section 8 (b) of the Central Intelligence Agency Act provides the authority for CIA to expend funds without regard to law and regulations, and when made for objects of a confidential, extraordinary, or emergency nature, such expenditures, when so certified to by the Director of Central Intelligence, are not subject to review by the General Accounting Office.

Section 8 (b) of the act is quoted below.

"The sums made available to the Agency may be expended without regard to the provisions of law and regulations relating to the expenditure of Government funds; and for objects of a confidential, extraordinary, or emergency nature, such expenditures to be accounted for solely on the certificate of the Director and every such certificate shall be deemed a sufficient voucher for the amount therein certified."

Under this authority, CIA classifies the funds available to it as vouchered or unvouchered (confidential) funds. The vouchered funds are those funds that can be expended in accordance with the provisions of the CIA Act of 1949 or the provisions of law and regulations normally applicable to the expenditure of Government funds, and, in the Director's opinion, the vouchers and related documents can generally be made available for audit by the General

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Accounting Office. Confidential funds are those funds used for necessary official purposes of such a confidential, extraordinary, or emergency nature that they should not be accounted for in detail outside CIA. These confidential funds are obligated and expended under authorities and regulations prescribed by the Director. Detail accountings of such confidential funds expenditures are not made outside of the Agency, but, for the most part, are accounted for outside CIA solely on the certification of the Director that they were expended for confidential, extraordinary, or emergency purposes.

Section 102 (d)(3) of the National Security Act of 1947, provides in pertinent part:

"That the Director of Central Intelligence shall be responsible for protecting intelligence sources and methods from unauthorized disclosure."

Under this authority, CIA withholds from our review certain activities, records, and documents, which, we have been advised, might reveal intelligence methods or operational locations regardless of vouchered or confidential funds classifications.

Under this authority, CIA also reviews all written material, including this report, that is prepared in the course of our audit work for dissemination to other than CIA officials. The purpose of such a review is to determine the proper security classification of the information contained therein, and to determine whether the person or persons to which the material is directed are properly cleared to receive and maintain such classified information. Where, in the Director's opinion, any of the written material might disclose intelligence sources or intelligence methods, the Director has the authority to require that all or part of the material will not be disseminated,

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regardless of the security clearances of the person or persons to which the material is directed.

Prior to the agreement for the extension of the General Accounting Office audits at Central Intelligence Agency to include reviews of its activities (see page 10), we examined certain CIA expenditures at the site. This arrangement was made with officials of the National Intelligence Authority in August 1946, and has been continued with the succeeding intelligence agencies. This site audit of certain CIA expenditures was essentially limited to a review of fiscal officers' accounts, including an examination of certain related vouchers and other documents evidencing the expenditure of appropriated funds to determine whether the expenditures were made in accordance with the provisions of the CIA Act of 1949, or with the laws and regulations generally applicable to Government expenditures. In addition, the site-audit staff performed liaison functions between CIA and the General Accounting Office as requested by CIA officials. Questionable expenditures were submitted to our site-audit staff by CIA officials for review prior to payment. Reports were not issued to anyone outside CIA, and formal exceptions to the expenditures made were not taken, but any expenditures that were questioned in the audit were taken up informally with CIA officials. The site-audit activities were limited to expenditures of CIA referred to as vouchered funds.

AUDITS OF FEDERAL DEPARTMENTS AND AGENCIES

In 1946 when the site-audit of central intelligence expenditures was first initiated, the General Accounting Office audit activities encompassed generally the audit of expenditure and related documents centrally and the

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settlement of accounts of fiscal officers, the audit of financial transactions of Government corporations, and the investigation of matters relating to the receipt, disbursement, and application of funds.

Since the enactment of the Central Intelligence Agency Act of 1949, however, the General Accounting Office has broadened the scope of the audit of the activities of most Government agencies. Under our present audit approach, the basic purpose of the audit is to review and evaluate the manner in which the agency or activity under audit carries out its financial responsibilities and to report our findings, opinions and recommendations to the Congress, or agency officials, as appropriate. Financial responsibilities are construed to include the expenditure of funds and the utilization of property and personnel only in the conduct of authorized programs or activities in an effective, efficient, and economical manner. We examine, also, agency practices and procedures followed in carrying out the agency policies and make selective examinations of actual activities and transactions as a means of appraising the application of agency practices and procedures.

AGREEMENT FOR EXTENSION OF AUDIT OF
CENTRAL INTELLIGENCE AGENCY ACTIVITIES

In a letter dated May 29, 1959, to the Chairman, Special Subcommittee on the Central Intelligence Agency of the Committee on Armed Services, House of Representatives, the Comptroller General concluded that a broader type of audit, more in line with our present audit approach at other Federal departments and agencies, is appropriate and desirable for our audit of CIA and that the limited audit then being conducted be discontinued. The belief was stated that the broader comprehensive audit is more likely to be productive of evaluations of the administrative functions, which evaluations

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would be helpful to the Congress and the Director of Central Intelligence. It was concluded, also, that any broadening of our audit activities should not include an evaluation of CIA intelligence activities.

It was proposed that our audit work be expanded to include an examination of vouchered expenditures and, at the outset, the controls and procedures used in processing confidential expenditures. It was proposed, also, to make a limited examination of the support for confidential expenditures in accordance with such agreement as to access as can be reached with CIA. A copy of this letter is included as Appendix I to this report.

In a letter dated October 16, 1959, to the Comptroller General, the Director of Central Intelligence set forth his position on any possible expansion of the General Accounting Office audit of CIA activities. This position is summarized in the next succeeding paragraph. A copy of this letter is included as Appendix II to this report.

The General Accounting Office comprehensive type audit of CIA activities will have to remain outside the area of sensitive security activities regardless of whether the Director has invoked his special authority under Section 8 (b) of the Central Intelligence Agency Act to make a final accounting therefor. Although all funds appropriated to the Agency are technically on an unvouchered (confidential) basis, the exercise of the Director's authority to make a final accounting therefor has been limited to those activities which in the national interest should have the maximum security protection. CIA expenditures are made where possible under the general authorities of the act without invoking the special authority, and, as a result, certain non-sensitive activities in support of confidential operations are funded under

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the general authorities of the act on the general authorities available to Government agencies by various Statutes. In such instances, the comprehensive audit of the General Accounting Office would have to remain outside the area of sensitive security activities.

In a letter dated October 21, 1959, the Comptroller General advised the Director of Central Intelligence that the Director's position on the General Accounting Office audit of CIA activities presents problems on sufficient breadth of coverage and review of detail for the purpose of reaching sound evaluations, but that the General Accounting Office is willing to broaden its activities at CIA within the principles expressed in the Director's letter dated October 16, 1959. The Comptroller General advised, however, in the event it appears after a trial period that the reviews are limited to such an extent that we cannot effectively and constructively accomplish any worthwhile audit objectives, we will have to consider whether the audit should be continued. A copy of this letter is included as Appendix III to this report.

The following report sections contain our comments on the effect the withholding of fiscal and other information has in limiting the General Accounting Office audit at CIA.

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FINDINGS AND CONCLUSIONS

Our review of CIA activities has been limited to selected activities of the Support Component and the Intelligence Component of CIA. The limitations on our review are summarized on pages 11 and 12 of this report. We have had no access whatsoever to the activities of the Plans Component of CIA. In the Support Component, we reviewed selected activities of the Office of the Comptroller, the Office of Logistics, and the Audit Staff. In the Intelligence Component we reviewed selected activities of the Office of Operations, the Office of Central Reference, and the Office of Basic Intelligence. This report contains brief comments on the activities of the Inspector General, but we have had no access whatsoever to the work of the Inspector General or his staff.

Based on our review, we believe that under the limitations placed on the General Accounting Office audit of CIA activities in the Director's letter dated October 16, 1959, it is not possible to perform comprehensive reviews of CIA activities that would be productive of evaluations helpful to the Congress. It is not possible, in our opinion, for the General Accounting Office to make comprehensive reviews and evaluations of the activities carried out by the Plans Component and the Support Component of CIA. It is possible to make reasonably comprehensive reviews of the most activities of the Intelligence Component, but such reviews, on a continuing basis, in our opinion, would not be productive of evaluations helpful to Congress.

Comments on our reviews are contained in the following sections of this report.

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PLANS COMPONENT ACTIVITIES

The Plans Component, or Clandestine Service, is the organizational mechanism by which CIA's espionage, counterespionage, and other covert operations are carried out.

The General Accounting Office will have no audit access whatsoever to the Plans Component or its activities, because access to confidential operations is denied to us. We would be permitted to make a voucher-type audit of certain vouchered funds transactions, principally payroll, processed for the Plans Component in the Fiscal Division of the Office of the Comptroller.

SUPPORT COMPONENT ACTIVITIES

Office of the Comptroller

The Office of the Comptroller is charged with the responsibility for budgetary and financial operations of the Agency, including both overt and covert (confidential) operations. This responsibility is carried out under the direction of the Comptroller by five operating divisions and certain staff units. The five operating divisions are the Budget, Finance, Fiscal, Industrial Contract Audit, and the Machine Records Divisions.

Because the operating divisions of the Office of the Comptroller have both overt and confidential operations, and access to confidential operations is denied to us, the General Accounting Office cannot effectively review and evaluate the integrated activities carried out in the Office of the Comptroller. The General Accounting Office could make a voucher-type site audit of transactions processed in the Fiscal Division, but such audit, in our opinion, would not be productive of any satisfactory conclusions or of results commensurate with the efforts involved.

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Budget Division

The Budget Division is responsible for the development and administration of the overall budget plans and programs for the entire Agency. This responsibility is carried out under the direction of the Chief, Budget Division, by five branches. An Analysis Branch is responsible for the development and administration of budget plans and programs of each of the three major CIA components. A Special Projects Branch operates entirely in the area of clandestine activities and is responsible for carrying out the budgetary responsibilities as they apply to CIA proprietary and subsidy projects, including the review and analysis of corporate financial statements of the business entities owned or subsidized by CIA, in order to evaluate the fund requirements of each project. A Support Branch maintains the budgetary records, assembles the segments of the budget estimates and justifications prepared by the analysis branches, and provides clerical and typing services.

The General Accounting Office cannot review and evaluate the activities of the Budget Division and the budgetary controls exercised by the division over CIA activities for the reasons stated in the following paragraphs.

All branches of the Budget Division are involved in confidential funds activities, and the General Accounting Office will be permitted only limited access to any of the branches. We were advised by the Chief, Budget Division, that it would be necessary to remove records and documents concerning confidential funds activities from the files before we would be permitted to review the activities of a branch.

The Chief, Budget Division, advised us that budget estimates are prepared by the Agency for submission to and review by the Congress and the Bureau of the Budget, and that these estimates disclose data normally submitted by

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Government agencies to the Congress and to the Bureau of the Budget. The estimates are prepared on an all funds basis with no separation of vouchers and confidential funds activities. We understand that cleared personnel of the Bureau of the Budget review the detailed requirements throughout the Agency on a continuing basis, and that the subcommittees of the committees on appropriations of the House of Representatives and the Senate are furnished full information about the Agency's activities in any amount of detail desired.

The Chief, Budget Division, further advised us that the Agency budget estimates could be made available for our review only on a selective basis with the selection to be made by the Agency. Two overall summary schedules which include all funds of the three CIA components were made available to us and, in addition, the narrative justifications and organizational and functional statements supporting the budget estimates of substantially all of the activities of the Intelligence Component were made available to us. The budget material on the activities of the Photographic Intelligence Center of the Intelligence Component was withheld, however. The documents to which we were given access were on an all funds basis and do not disclose the details of either confidential or vouchered fund activities.

As previously mentioned, funds necessary to meet CIA operating requirements are not appropriated directly to CIA, but are included in the appropriations made to certain other Government departments and agencies and are subsequently transferred to CIA. The Chairmen of the Appropriations Committees of the Senate and the House of Representatives advise CIA and the Bureau of the Budget by letter of the amounts appropriated for CIA activities, and the appropriations in which the funds are included. The Chief, Budget

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Division, advised us that such letters setting forth CIA funds could not be made available to the General Accounting Office for review, because these letters disclose the sources of CIA funds and would lead to the disclosure of the methods by which the funds are made available to CIA.

Finance and Fiscal Divisions

The division of financial responsibilities in the Office of the Comptroller is generally based on whether the activity is of a sensitive security nature, which in order to protect intelligence methods, procedures, or sources should not be accounted for outside the Agency, or whether the activity is one usually found in other Government operations and the related expenditures could be made in accordance with the provisions of law and regulation usually applicable to Government transactions and, in the opinion of the Director of Central Intelligence, can be audited by the General Accounting Office. CIA funds allotted for sensitive security activities are designated as unvouchered (confidential) funds and the responsibility for the financial administration of these confidential funds is assigned to the Finance Division. CIA funds allotted to nonsensitive activities are designated as vouchered funds and the responsibility for the financial management of these funds is assigned to the Fiscal Division.

CIA expenditures are paid by Government check drawn in the Treasury Department Branch No. 2, of the Fiscal Division, or they are paid through the covert disbursing system of the Finance Division. Where the transaction is of a nature that CIA or the Government may be identified with a transaction, the payment will be made by Government check which will be drawn in the Fiscal Division regardless of the vouchered or confidential funds classification. Substantially all vouchered funds transactions are paid by

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Government check. Where the transactions is of such a nature that it should not be identified with the Government, the payment is made through the covert disbursing system of the Finance Division.

Finance Division

Finance Division responsibilities include the preparation and maintenance of the financial records and accounts, and the periodic financial reports on confidential funds financial activities; the administrative audit and certification for payment of claims which are chargeable to confidential funds allotments; the operation of a covert disbursing system; the preparation of covert payrolls; and related activities.

Officials of the Office of the Comptroller advised us that the General Accounting Office would have no audit access whatsoever to the Finance Division and the activities performed in that Division. This position is based on the fact that all of the activities of that Division are confidential activities and are therefore precluded from review under Section 3 (b) of the Central Intelligence Agency Act of 1949.

The Finance Division is responsible for the maintenance of CIA financial property accounting records, regardless of whether the property was acquired with vouchered or confidential funds. These accounting records and controls are not subject to review, because we are not permitted audit access to Finance Division activities. All inventory, except administrative supplies, are considered by CIA to be of a confidential nature. Administrative supplies are also considered to be of a confidential nature in some instances, for example, where such supplies are for overseas use.

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Fiscal Division responsibilities include the preparation and maintenance of the financial records and accounts and the periodic reports on vouchered financial activities; the administrative audit and certification for payment of claims which are chargeable to vouchered funds allotments; the operation of a Treasury Department Disbursement Branch; the preparation of vouchered funds payrolls; and related activities. In addition, all funds appropriated to CIA and all CIA disbursing funds are initially recorded on the records of the Fiscal Division, and the Division is responsible for maintaining the applicable overall allotment and expenditure control records. In the case of confidential funds, this overall control is maintained through a series of reciprocal accounts on the records of both the Fiscal Division and the Finance Division. The detail control records for vouchered funds are maintained in the Fiscal Division.

The General Accounting Office is permitted only limited audit access to the records, accounts, reports, documents, and files prepared and maintained in the Fiscal Division. This restriction has the effect of curtailing the audit by the General Accounting Office to a limited voucher-type audit of transactions processed in the Fiscal Division. Our comments on these audit limitations follow.

The central accounting records maintained in the Fiscal Division include a general ledger of vouchered funds accounts which ledger is supported by certain detailed subsidiary accounts and by four books of original entry. The books of original entry include registers for Cash Receipts, Cash Disbursements, Bills Rendered, and General Journal, and form the basis for monthly

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summary postings to the general ledger accounts. In addition, an allotment ledger to control the obligation and expenditure of vouchered funds allotments is maintained in the Division.

CIA officials will permit audit access to the general ledger, but will not permit audit access to two of the books of original entry. We will not be permitted to review the Register or Cash Receipts, or the General Journal. Officials of the Office of the Comptroller advised us that the Register of Cash Receipts would disclose the sources of funds which are made available to CIA, and perhaps, the devious methods by which these funds are made available to CIA. They advised us also that the General Journal might include sufficient detail concerning the reserve for contingencies, which detail might be coupled with information available elsewhere and might lead to conclusions concerning the direction of sensitive security operations of CIA. The officials stated that these limitations were imposed in order to protect intelligence sources and methods from unauthorized disclosure.

Vouchered funds expenditures are not certified to by the Director of Central Intelligence under Section 8 (b) of the Central Intelligence Agency Act as being expenditures of a confidential, extraordinary, or emergency nature which cannot be accounted for outside CIA. However, the vouchers and other documents supporting certain vouchered funds expenditures processed in the Fiscal Division are not available for comprehensive audit by the General Accounting Office.

CIA vouchered funds expenditures fall into two general categories: (1) vouchered funds expenditures which are chargeable to vouchered funds allotments, and (2) vouchered funds expenditures which are chargeable to confidential funds allotments.

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Officials of the Office of the Comptroller advised us that the vouchers and other documents supporting vouchered funds expenditures which are chargeable to vouchered funds allotments may indicate the name, nature, or location of a project or activity which cannot be disclosed outside CIA. These officials stated that if such transactions were selected for audit, the vouchers and supporting documents could not be made available to our audit staff. We made a limited review of selected vouchered funds expenditures chargeable to vouchered funds allotments, and found that some of the transactions selected were withheld from our review. Officials of the Support Component subsequently advised us that some of the transactions chargeable to vouchered funds allotments will be withheld from our review on the condition that the sensitive information is not used in our audit and is not recorded in our audit working papers.

Officials of the Support Component advised us that the vouchers and other documents supporting vouchered funds expenditures which are chargeable to confidential funds allotments could be made available for voucher-type audit by the General Accounting Office, but since these transactions involve activities that are of a confidential, extraordinary, or emergency nature, under the limitations set forth in the Director's letter dated October 16, 1959, they are withheld from comprehensive audit by the General Accounting Office. Further comments on these expenditures are contained on pages 24 through 28 of this report.

Officials of the Support Component advised us that the General Accounting Office would be permitted audit access to the records, files, and documents maintained in the Payroll Branch of the Fiscal Division, but would be permitted only limited access to the personnel files of individuals included

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on the vouchered funds payroll. We would be permitted access to the personnel files of employees engaged in purely overt activities, but we would not be permitted to have access to the personnel files of employees engaged in clandestine activities or in direct support of clandestine activities. It is our understanding that this arrangement would permit the General Accounting Office to review the personnel files of practically all of the employees of the Intelligence Component, but would preclude the review of such files of all employees of the Plans Component and of practically all of the employees of the Support Component.

Based upon the dollar volume of vouchered funds transactions charged to vouchered funds allotments, the major activity of the Fiscal Division is payroll activity. The Fiscal Division personnel services obligations against fiscal year 1959 vouchered funds was about 84 per cent of the total vouchered funds obligations charged to vouchered funds allotments. The personal services obligations of the Intelligence Component, however, represented only about 20 percent of the total CIA fiscal year 1959 personal services obligations or about 35 percent of the Fiscal Division fiscal year 1959 personal services obligations.

The Chief, Fiscal Division, advised us that present plans are to place the vouchered funds payroll on newly acquired electronic equipment in November 1960. He further advised us that the related controls and procedures necessary to the proposed change have not yet been finalized.¹

¹ The Chief, Fiscal Division, advised us that at May 1, 1961, this proposed changeover had not yet been accomplished.

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It may be possible to perform a payroll audit of the vouchered funds payroll activity under present audit limitations, but the ability to audit payroll activity after October 1960, cannot be determined until the new payroll system is installed. We do not believe, however, that the audit of payroll activity would be productive of evaluations that would be helpful to the Congress.

Industrial Contract Audit Division

The Industrial Contract Audit Division (ICAD) is charged with the responsibility for the review of financial and cost data submitted in contract proposals for determining through field surveys the extent to which the Agency can rely upon a contractor's cost determinations and the financial ability of a contractor to perform under contract; the administrative pre-audit of all vouchers under confidential funds contracts, and of all vouchers under vouchered funds contracts, which will require a cost or price redetermination audit; the field audit of all CIA cost and price redeterminable contracts; and the reconciliation of certain bank balances of the covert disbursing system of the Finance Division. The Chief, ICAD, advised us that the contract audit work is performed entirely by ICAD employees, most of whom are stationed at CIA Headquarters, and that without major exception the contract audit work follows the applicable provisions of the Armed Forces Procurement Regulations and Contract Audit Manual of the Department of Defense.

Because substantially all of the ICAD activities pertain to confidential funds activities, and access thereto would be denied, it would not be possible, in our opinion, for the General Accounting Office to review and evaluate the activities of ICAD. Review by the General Accounting Office of the audit activity of ICAD pertaining to vouchered funds contracts would be

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permitted, but it is only a minor segment of ICAD activity, representing not more than ten percent of the dollar volume of cost and price redeterminable contracts subject to ICAD field audit.

Vouchered funds expenditures charged to confidential funds allotments

Under the authority contained in Section 8 (b) of P.L. 81-110, the Central Intelligence Agency Act of 1949, CIA determines which of its expenditures will or will not be accounted for to, and subject to audit by, the General Accounting Office. On this basis, CIA classifies the funds available to it as either vouchered funds or confidential funds.

Vouchered funds are those funds that can be expended in accordance with provisions of the CIA Act of 1949 or of law and regulation normally applicable to the expenditure of Government funds and, in the opinion of the Director of Central Intelligence, the vouchers and related documents generally can be made available for audit by the General Accounting Office. Confidential funds are those funds used for necessary official purposes of such a confidential, extraordinary, or emergency nature that they cannot or should not be accounted for in detail outside CIA.

Confidential funds transactions generally are disbursements that are accounted for on the certificate of the Director of Central Intelligence under Section 8 (b) of P.L. 81-110, which provides:

"(b) The sums made available to the Agency may be expended without regard to provisions of law and regulations relating to the expenditure of Government funds; and for objects of a confidential, extraordinary, or emergency nature, such expenditures to be accounted for solely on the certificate of the Director and every such certificate shall be deemed a sufficient voucher for the amount therein certified."

Vouchered funds transactions are not accounted for on the certificate of the Director.

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Included in these vouchered and confidential funds transactions are certain transactions which are paid from vouchered funds but are charged to confidential funds allotments. Officials of the Office of the Comptroller, CIA, advised us that vouchered funds disbursements charged to confidential funds allotments represent transactions that are not sensitive until associated with CIA, that they are not accounted for on the certificate of the Director, and that they are disbursements by Government check for services, equipment and supplies obtained from or through other Government agencies and commercial vendors. These officials initially advised us that these payments were not being made available for audit by the General Accounting Office staff assigned to the audit of CIA, but where these transactions were payments to other Government agencies, the related disbursements by the receiving agency were subject to audit by any General Accounting Office staffs that might be assigned to the audit of such agencies.

Disbursements by the receiving agencies of such CIA funds may be subject to our audit, but in any such audit we would be precluded from knowledge that the disbursements involved CIA, or were to meet CIA requirements. In our audits of other Government agencies, there have been instances, however, where CIA officials have requested that the General Accounting Office cease certain audit activities. The Deputy Comptroller advised us that the instances where the General Accounting Office has been requested to cease audit activities [REDACTED]

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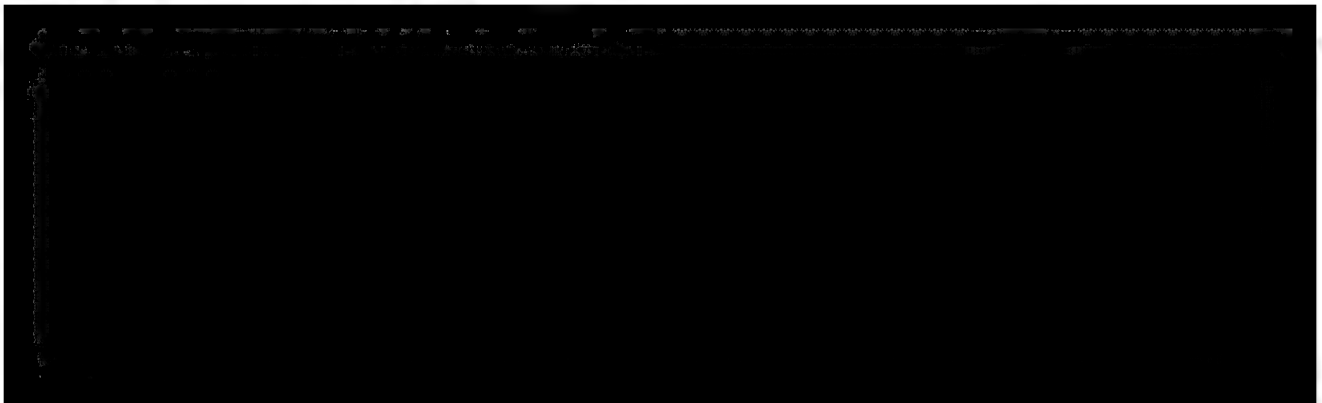
[REDACTED] Such contracts, we were advised, do not involve fund transfers between CIA and other Government agencies.

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The Deputy Comptroller advised us that these transactions average to be about 15 per cent of CIA's total expenditures. The total of these vouchered funds disbursements charged to confidential funds allotments are included in various reports issued by the Comptroller as vouchered funds transactions. The activity during the two immediately prior fiscal years may be summarized as set forth below.

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The Comptroller advised us by letter dated September 19, 1960, that if these disbursements to other Government agencies were certified by the Director, the disbursements by the receiving Government agency would be exempted from audit by the General Accounting Office. These disbursements to other Government agencies, therefore, are not certified to by the Director under Section 8 (b) of P.L. 81-110 in order to permit audit by the General Accounting Office of the disbursements by the receiving agency. The pertinent parts of the Comptroller's letter are set forth below.

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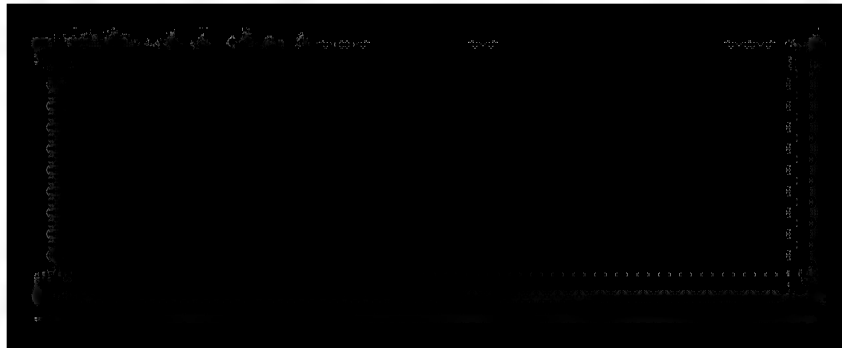
"4. The reason for not extending the DCI certification procedures to transfers to other Government agencies is as follows:

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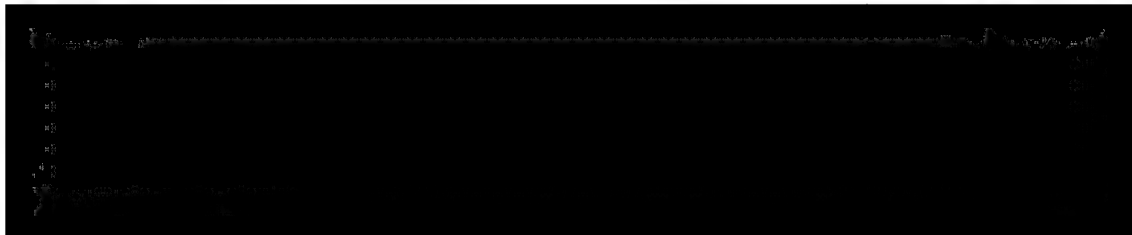
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- a. When fund transfers are made to other Government agencies, and adequate audit can be accomplished without compromising security when funds are disbursed by the receiving agencies. The Agency feels that such an audit is desirable. However, if the transfer disbursements are DFI certified, they are, by law, exempted from any further audit at the time of disbursement by the receiving agency.

b.



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Officials of the Support Component advised us that these disbursements to commercial vendors [REDACTED] during the fiscal years 1959 and 1960) would not be subject to audit by the General Accounting Office, because the transactions are sensitive when associated with CIA. These officials advised us, however, that beginning with expenditures from fiscal year 1961 funds the audit exemption provided in Section 8 (b) of P.L. 81-110 will be utilized and the expenditures will be accounted for under the certification of the Director.

The Deputy Director (Support) advised us by letter dated April 13, 1961, however, that there would be no objection to making the vouchers and other documents supporting vouchered funds transactions which are charged to confidential funds allotments available for voucher-type audit by the General

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Accounting Office. This would permit the General Accounting Office to perform the same voucher-type audit of these transactions as was possible prior to the initiation of this review.

Office of Logistics

The Office of Logistics, under the direction of the Director of Logistics, is responsible for the planning and implementation of CIA logistical support. This responsibility includes the procurement, distribution, accountability and disposition of Agency equipment, supplies and real estate; the transportation of personnel, equipment, and supplies; and the provision of printing, mail, and courier services. These responsibilities are discharged through five operating divisions and certain staff units. The operating divisions are Printing Services, Procurement, Real Estate and Construction, Supply, and Transportation.

The General Accounting Office, in our opinion, can make limited reviews and evaluations of the centralized activities of the Printing Service Division. Based on our reviews and discussions with officials of the Office of Logistics during fiscal year 1960, the General Accounting Office, in our opinion, cannot review and evaluate the activities of the Procurement, Supply, and Transportation Divisions. However, certain changes in the policies, practices, and procedures affecting the activities of these divisions are presently being implemented and are expected to increase the General Accounting Office access to these activities.

Effective July 1, 1960, CIA established policies and procedures to permit the use of vouchered funds allotments for headquarters property procurement consistent with CIA security requirements. This change generally permits vouchered funds to be used for overt procurements from commercial vendors in the name of CIA where the documents supporting the transaction do

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not reveal sensitive data, and for overt procurements from other Government agencies. Prior to July 1, 1960, Headquarters vouchered funds procurement actions were limited to certain research and development contracts and to contracts for the procurement of administrative, housekeeping and janitorial supplies and equipment. This change will make additional supply actions and financial transactions available for review by the General Accounting Office, and will permit increased audit examinations into the utilization of such property in the overt activities of the Intelligence Component.

Procurement Division

The Procurement Division, under the direction of the Chief, Procurement Division, is responsible for the procurement of material and non-personal services required by CIA operations.

The General Accounting Office will be permitted to have access for review of the policies, practices, and procedures applicable to non-covert CIA procurement activities, but any verifications thereof would be limited to vouchered fund procurement actions. Headquarters vouchered funds procurement actions were limited to certain research and development contracts and to contracts for the procurement of administrative, housekeeping and janitorial supplies and equipment in fiscal year 1960. All other fiscal year 1960 procurement actions were confidential fund transactions, or vouchered fund transactions chargeable to confidential allotments.

We made a review of procurement activity during the 6-month period ended December 31, 1959, to determine whether the General Accounting Office would have sufficient access to evaluate these procurement activities. We found that 330 contracts authorizing the expenditure of about \$5.8 million of CIA funds were entered into during this period with non-government contractors. Twenty of these contracts obligating about \$1.4 million of vouchered funds were made available for our review. These contracts were service type

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contracts, principally for research work. The remaining 310 contracts obligating about \$4.4 million were contracts paid from confidential funds, or from vouchered funds but charged to confidential allotments. This review did not include standard purchase order agreements entered into with non-governmental sources, or any contractual agreements with other Government agencies.

Supply Division

The Supply Division, under the direction of the Chief, Supply Division, is responsible for planning and implementation of the CIA supply program, including the accountability for, and the receiving, inspection, storage, maintenance, issue and final disposition of CIA material.

Officials of the Supply Division advised us that the General Accounting Office would have no access whatsoever to the physical assets of CIA that are under the control of the Supply Division. We would be permitted to make selected reviews of the unit accountability records maintained in the Supply Division, with the selection to be made by CIA. We would not be permitted to make any overall review of these records. The General Accounting Office would be permitted to review the policies, practices and procedures under which the supply program is carried out, but any verifications thereof would be limited to the documents and records evidencing vouchered funds actions. Headquarters vouchered funds supply actions during fiscal year 1960 were limited to administrative, house-keeping and janitorial supplies, services, and equipment and the blanket order acquisition of spare parts and petroleum products. All other Headquarters supply actions in fiscal year 1960 were confidential funds transactions.

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In addition, officials of the Office of the Comptroller advised us that regardless of whether the property was acquired from vouchered or confidential funds the General Accounting Office would not have any access whatsoever to the financial property accounting records.

Transportation Division

The Transportation Division, under the direction of the Chief, Transportation Division, is responsible for the transportation of CIA personnel, equipment, and supplies, and the operation of CIA motor vehicles and a Headquarters motor pool.

Officials of the Transportation Division advised us that the great bulk of CIA transportation shipments are clandestine movements made under the cover of other Government agencies. The documents evidencing these shipments are not subject to review by the General Accounting Office as CIA transactions. The documents evidencing shipments made under the cover of other Government agencies are subject, however, to centralized audit by the Transportation Division of the General Accounting Office. This centralized audit relates wholly to the documents submitted to the General Accounting Office, which cannot be identified with CIA, and appear as movements of the Government agency used for cover purposes. Such an audit cannot be used as a basis for the evaluation of CIA transportation activities.

Printing Services Division

The Printing Services Division, under the direction of the Chief, Printing Services Division, is responsible for the direction of the CIA printing program, including the operation and maintenance of centralized and special printing facilities at Headquarters, and the furnishing of technical guidance on special printing and reproduction facilities in other Headquarters organizational units.

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The Chief, Printing Services Division, informed us that the General Accounting Office would have access to the two major printing plants operated by the Division. He advised also that we could review the policies, practices, and procedures under which these plants are operated, and that we would have access to the records and documents upon which the costs of these facilities are estimated and charged to the various users of the service within CIA and the other Government agencies. However, the distribution of the cost of the printing services to users within CIA are to confidential funds cost records and we would be precluded from verifying the distribution of such charges to the related cost records.

INTERNAL REVIEW MECHANISMS

CIA management controls include three internal review mechanisms. In the Support Component, an Audit Staff is responsible for conducting internal audits of CIA financial and property activities, and a Management Staff is responsible for conducting management reviews. An Inspector General on the Staff of the Director is responsible for conducting inspections and investigations of CIA activities.

Support Component

Audit Staff

The Chief of the Audit Staff is responsible directly to the Deputy Director (Support) for an independent audit of all matters relating to the receipt and disbursement, and application of funds and assets available to CIA. This responsibility includes the determination as to whether the funds and property of an activity audited are used in an economical, efficient, and proper manner, and whether this use is in furtherance of an activity

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authorized under the pertinent laws and regulations. The scope of an internal audit may be limited in order to maintain operational and security cover, and to adequately protect intelligence sources and methods.

In carrying out its responsibilities, the Audit Staff is directed to give:

"due regard to generally accepted principles of auditing, including consideration of the effectiveness of accounting organizations and systems; internal funds and property accounting controls; accounting procedures and responsibilities of operating components in relation to the receipt, custody, and use of funds, property and other assets; and other related administrative practices."

Reports on the results of the audits performed are directed to the organization audited, the Deputy Director (Support), and, where appropriate, to the Director of Central Intelligence.

The Deputy Director (Support) advised us that generally the entire effort of the Audit Staff has been in the area of clandestine activities. He further advised that internal audits of support activities involving both confidential and vouchered activities did not separate the confidential from the vouchered activities. Officials of the Audit Staff advised us that about 90 percent of their audit effort is in the area of clandestine activities.

In our reviews of the Fiscal Division and the Procurement Division, we were given access to pertinent audit reports because the reports did not disclose any sensitive information. We were refused access, however, to the underlying working papers on the audit of the Procurement Division, because the confidential and vouchered material could not be separated. In our review of an activity of the Intelligence Component, we were given access to the audit reports and to the related working papers applicable to vouchered funds activities.

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Without complete access to the audit programs, working papers, and reports, the General Accounting Office cannot, in our opinion, make any effective evaluation of the CIA internal audit activity.

Management Staff

The Chief, Management Staff, is responsible for administering the CIA program to improve management and efficiency throughout the Agency, including, among other things, reviews of the organization, functions, systems, methods, and the utilization of personnel of the various CIA organizational units. Such reviews are performed at the request of the officials of the various CIA organizational units. Based on such reviews, the Management Staff submits reports and recommendations resulting from such reviews to the interested officials for consideration and necessary action.

In our review of activities of the Intelligence Component, we were given access to reports and recommendations resulting from such Management reviews of the Intelligence Component.

Inspector General

The Inspector General is responsible for conducting inspections and investigations on behalf of the Director of Central Intelligence throughout the Agency, including the survey and evaluation of the assignment and performance of the missions and functions for all components of the Agency, and the investigation of fraud, misuse of funds, conflicts of interest, and other matters.

We were advised by the Deputy Director (Support) that the General Accounting Office would have no access whatsoever to the reports and working papers of the Inspector General.

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INTELLIGENCE COMPONENT ACTIVITIES

The activities of the Intelligence Component may be grouped in three general categories: the overt collection of intelligence information, the indexing and collation of such information, and the production and dissemination of intelligence reports based on this information. In addition, certain covert (confidential) activities are performed in this Component. The activities of the Component are carried out under the direction of the Deputy Director (Intelligence) by a Senior Research Staff on International Communism, a Photographic Intelligence Center, and the seven operating offices referred to as Offices of Operations, Central Reference, Basic Intelligence, Research and Reports, National Estimates, Current Intelligence, and Scientific Intelligence.

The activities of the Photographic Intelligence Center are confidential and we have had no audit access thereto, but substantially all of the activities of the seven operating offices are overt. The Office of Operations has primary responsibility for the overt collection of intelligence information, and the Office of Central Reference has primary responsibility for indexing and collating intelligence information. The five remaining operating offices are primarily responsible for the production and dissemination of intelligence reports. The Office of Basic Intelligence, for example, is responsible for coordinating the production and maintenance of the National Intelligence Survey, a comprehensive digest of basic intelligence on foreign areas.

Our reviews of the overt activities of the Intelligence Component were made in the Offices of Operations, Central Reference, and Basic Intelligence to determine on a selective basis whether these activities are effectively and economically carried out and are in accordance with basic authorizing

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legislation, National Security Council Intelligence Directives and other regulations, and whether adequate administrative procedures are used to guide and control the activities of these offices.

Based on our reviews, we believe that there is sufficient audit access to make reviews of overt operations of the Intelligence Component. In our opinion, however, such reviews will not be productive of significant evaluations principally because we cannot feasibly evaluate the extent to which needed overt information is available for collection or determine the need for the intelligence information selected for collation and use in the production of intelligence reports. Because of the great quantity of information available, about 90 percent of the annual expenditures of the Intelligence Component relates to payroll and other contractual payments for personal services rendered in selecting on the basis of personal judgment under broad guidelines established by the intelligence community the specific information to be collected, collated, and used in the production of intelligence reports.

Our reviews in the Intelligence Component disclosed certain matters relating to: (1) the financing by CIA of certain Department of State activities which do not seem to be the primary responsibility of CIA and such financing may have the effect of supplementing the annual appropriations of the Department of State and (2) the financing by CIA of certain Library of Congress activities which substantially transcend CIA's interest and responsibility.

Our comments and findings on review of selected activities of the Office of Central Reference and the Office of Basic Intelligence, together with CIA's comments, are included as Appendix IV to this report.

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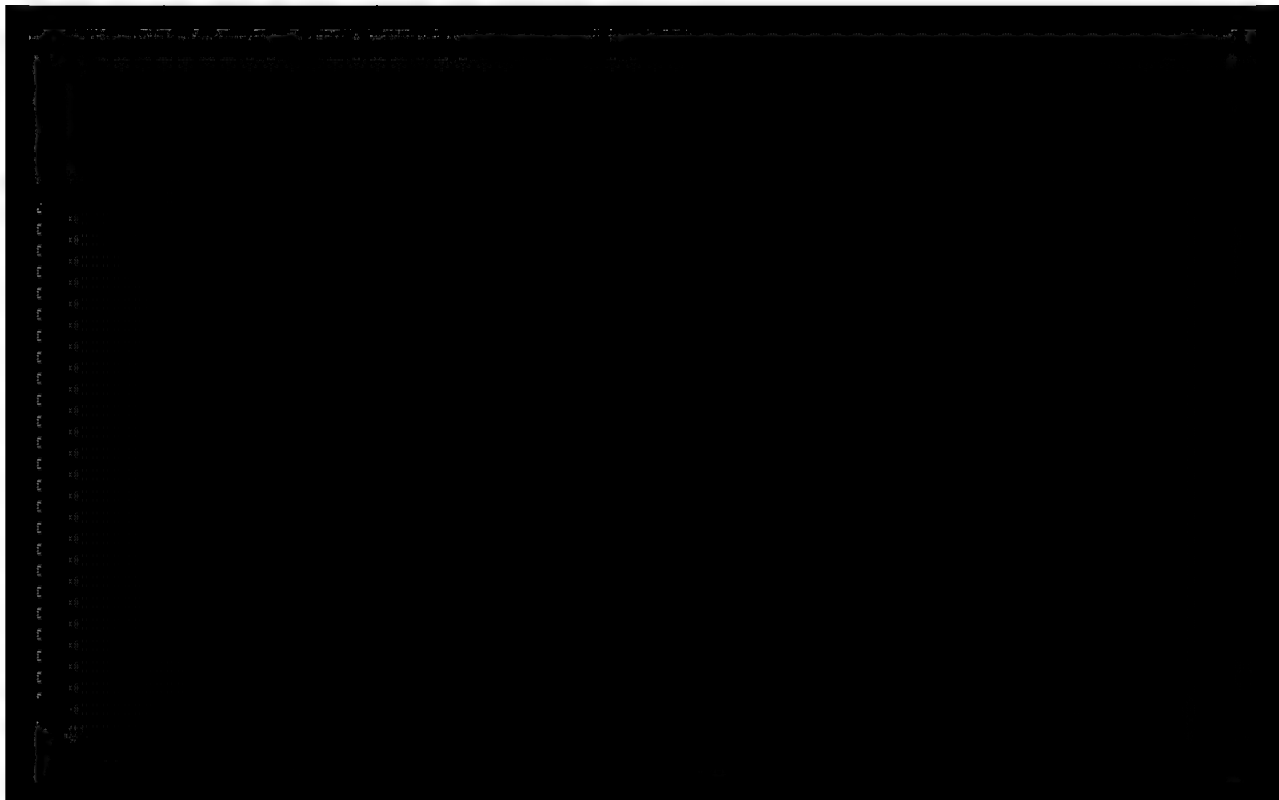
Following are our comments with respect to the activities of the selected offices reviewed.

Office of Operations

The Office of Operations (OO) is responsible for administering as a service of common concern the selective exploitation and reporting of intelligence information obtainable from domestic non-government sources, foreign radio and television broadcasts, foreign language publications, and analyses of material objects originating within the Soviet Bloc. Responsibility for exploiting and reporting selected information from these sources rests, respectively, with the Contact Division, [REDACTED] Foreign Documents Division, and the Soviet Materials Staff.

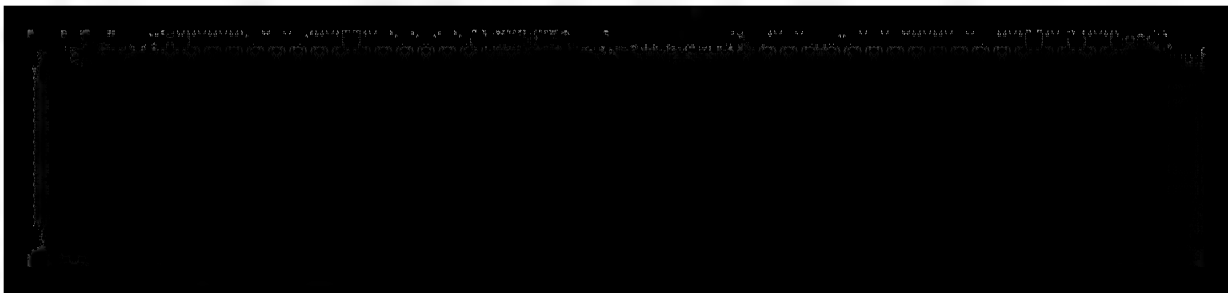
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We reviewed activities of the [REDACTED] and the Foreign Documents Division.



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Foreign Documents Division

The Foreign Documents Division (FDD) is responsible for exploiting and reporting on a selective basis the intelligence information obtainable from several hundred thousand foreign language newspapers, periodicals, technical journals, books, and monographs. Broad requirements concerning the area of needed intelligence are developed in an interdepartmental Committee on Exploitation of Foreign Language Publications (CEFLP) of which the Chief, FDD, is the chairman. The committee is composed of representatives from other agencies of the intelligence community. To carry out its responsibility, FDD has a staff of about 275 distributed throughout its Washington headquarters [REDACTED]

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[REDACTED] In addition to this staff, [REDACTED] negotiates and administers under the general guidance of FDD approximately 1,100 open-end personal service contracts with individuals who have agreed to perform on various unit rate bases certain translating, editing, typing, and printing services.

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On the basis of personal judgment, FDD staff and contract personnel screen and analyze in accordance with the broad requirements developed in the CEFLP some 5,500,000 foreign-language pages annually, and select from this material the information to be reported by FDD. Intelligence information selected from this material during fiscal year 1960 resulted in the production of some 200,000 pages of English-language reports.

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CONFIDENTIALOffice of Central Reference

The Office of Central Reference (OCR) is responsible for providing the overall direction and administrative support required to maintain as a service of common concern CIA's centralized reference service. Its activities are carried out under the direction of an Assistant Director by three operating divisions, four registers, a library, and a number of staffs.

We reviewed activities of the Liaison and Collection Division, Documents Division, Machine Division, the Library, and the Biographic Register.

Liaison and Collection Division

The Liaison and Collection Division (LCD) is primarily responsible for conducting and controlling inter-agency and intra-agency operational liaison with respect to servicing requests from CIA and other Government agencies for intelligence support, providing for the coordination of intelligence collection requirements, collecting intelligence information from other Government agencies and their officials, and producing intelligence information reports. With a staff of about 25 LCD serviced during fiscal year 1960 approximately 5,700 requests for intelligence support, 700 new requirements directives, 500 briefing and debriefings, and published about 550 intelligence information reports.

Documents Division

The Documents Division (DD) is primarily responsible for providing a central Agency service for the receipt and dissemination of intelligence documents and non-CIA cables, in accordance with the requirements of authorized recipients; developing and maintaining a coding and indexing system for the retrieval of intelligence documents from the central repository,

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and applying to selected incoming intelligence documents the appropriate retrieval code and index. With a staff of about 110, DD received, coded, and distributed during fiscal year 1960 approximately 513,000 documents and cables.

Machine Division

The Machine Division (MD) is primarily responsible for providing accounting machine (IBM) indexes of documentary and graphic intelligence materials held by OCR, making microfilm photographs of such intelligence material, and preparing such photographic reproductions as are required for reference purposes. Using a staff of about 80, MD added during fiscal year 1960 approximately 2,400,000 IBM index cards and 1,000,000 photographs to the files of OCR. MD also reproduced from microfilm about 500,000 pages of intelligence information for reference purposes.

CIA Library

The CIA Library is primarily responsible for providing central Agency repository and reference facilities for foreign intelligence information held by CIA. With a staff of about 140, the Library provided during fiscal year 1960 some 747,000 references to 337,000 information requests.

The Library also has assumed under an arrangement with the Library of Congress certain responsibilities with respect to the financing of Library of Congress activities concerning the publication of a Monthly Index of Russian Accessions and an East European Accession Index. These publications are primarily distributed to public and private research organizations and libraries in the United States and many foreign nations, including some in the U.S.S.R. and its satellites, and the projects, in our opinion, substantially transcend CIA's responsibility for providing a central reference facility as a service of common concern for the intelligence

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community. Our comments concerning this activity are included in Appendix IV to this report.

Biographic Register

The Biographic Register (BR) is assigned primary responsibility for maintaining and providing biographic information on selected scientific and technical personalities of foreign countries, and economic personalities from countries inside the Sino-Soviet Bloc. BR also has assumed under an agreement with the Department of State certain responsibilities with respect to the financing of biographic coverage on selected political and sociological personalities of foreign countries and economic personalities from countries outside the Sino-Soviet Bloc, which seem to be the responsibilities of the Department. Our comments concerning this activity are included in Appendix IV to this report.

A combined staff of about 140, including 27 at the BR financed activity of the Department of State, provided during fiscal year 1960 biographic reference service to about 6,000 biographic requests, prepared 6,200 written reports, and furnished 1,169,000 name references and documents.

Office of Basic Intelligence

The Office of Basic Intelligence (OEI) is primarily responsible for coordinating the maintenance and production of the National Intelligence Survey (NIS); for making such requests of other Government departments and agencies as are necessary for the development and maintenance of the NIS; and for the review, publication, and dissemination of the NIS. Primary responsibility for selecting and producing the political, sociological, and most economic intelligence included in the NIS seems to rest with the Department of State. Primary responsibility for the production of military intelligence rests with the Department of Defense.

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The NIS is a comprehensive digest of selected basic intelligence on foreign areas. The digest is designed to serve fully the strategic and operational requirements of the Department of Defense, the foreign policy requirements of the Department of State, and the lower planning and operational requirements of all other Government agencies. Broad policies and operating requirements concerning the intelligence information to be included in the NIS are developed under the direction of the National Security Council and an interdepartmental National Intelligence Survey Committee of which the Assistant Director, OBI, is the chairman. The committee is composed of representatives from the Departments of State and Defense. OBI's responsibility for coordinating, reviewing, publishing, and disseminating the 444 NIS sections produced during fiscal year 1960 was discharged by a staff of about 80.

OBI also has assumed under an arrangement with the Department of State primary responsibility with respect to the financing of Department of State activities concerning the production of political, sociological, and economic intelligence contributions to the NIS. These activities seem to be the responsibility of the Department of State. About 240 Department of State employees were assigned to this activity during fiscal year 1960. OBI's financing of an activity which seems to be the primary responsibility of the Department of State may have the effect of supplementing the annual appropriation of the Department of State. Our comments concerning this activity are included in Appendix IV to this report.

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APPENDICES

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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON 25

B-133200

May 29, 1959

Honorable Paul J. Kilday, Chairman
Special Subcommittee, Central Intelligence Agency
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

On May 15, 1959, Mr. A. T. Sammlson, Director of our Civil Accounting and Auditing Division, attended an executive meeting of your Subcommittee to discuss our audit responsibilities and activities at Central Intelligence Agency. At the conclusion of this meeting, it was suggested that recommendations be submitted for the future audit activities by the General Accounting Office at this Agency.

Following the enactment of the Central Intelligence Agency Act of 1949, the then Director of the Agency requested that notwithstanding the very broad and unusual powers granted to the Central Intelligence Agency by the Act an audit of expenditures at the site, as previously performed by the General Accounting Office, be continued. Accordingly, the General Accounting Office has continued to make audits of vouchered expenditures, under the same arrangements that were in effect with the predecessor Central Intelligence Group. However, in view of the provisions of section 10 of the Central Intelligence Agency Act, no exceptions have been taken to any expenditures. In those cases where questionable payments come to our attention, we refer the cases to the CIA Comptroller's Office for corrective action. In using the term questionable payments, we mean any expenditures which, except for section 10 (a) of the Act, would appear to be improper or illegal either under law or under the decisions of the Comptroller General. In our audit work, we have not made a substantive review of Agency policies, nor of its practices and procedures, and we have made no audit of expenditures of unvouchered funds.

Since the enactment of Central Intelligence legislation, we have generally broadened the type of audit we make of the activities of most Government agencies. Under our comprehensive audit approach, our basic purpose is to review and evaluate the manner in which the agency or activity under audit carries out its financial responsibilities. We construe financial responsibilities as including the expenditure of funds and the utilization of property and personnel in the furtherance only of authorized programs or activities in an effective, efficient, and economical manner. In carrying out this kind of an audit, we examine the organization structure and review the established agency policies for conformity with legislative intent and

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APPENDIX I

applicability to agency activities. We also examine agency practices and procedures followed in carrying out the agency policies and make selective examinations of actual transactions as a means of appraising the application of agency practices and procedures. Reports on the results of our work are submitted to the Congress and to agency management officials.

We believe that a broader type of audit is appropriate for our work at Central Intelligence Agency and is more likely to be productive of evaluations of the administrative functions which would be helpful to the Congress and the Agency Director. We have accordingly concluded that it would be desirable to expand our audit work at Central Intelligence Agency more in line with our regular comprehensive audit approach. The expanded work would include an examination of vouchered expenditures, and, at the outset, the controls and procedures used in processing unvouchered expenditures. Also we would propose to make a limited examination of the support for unvouchered expenditures in accordance with such agreement as to scope as can be worked out between CIA and our Office. As indicated by the preceding comments we have heretofore carried out only limited audit work at CIA, and we do not believe such limited work should be continued.

At this time we do not recommend any change in section 10 of the Central Intelligence Agency Act. We believe, however, that your Subcommittee could be very helpful in effecting a change in the scope of our audit work at CIA by advising the Agency of your interest in broadening the audit performed by the General Accounting Office. Any broadening of our audit activities should not include an evaluation of the intelligence activities of the Agency.

We are prepared to discuss this matter further at your convenience.

Sincerely yours,

(Signed) Joseph Campbell
Comptroller General
of the United States

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CENTRAL INTELLIGENCE AGENCY

Washington 25, D. C.

Office of the Director

16 October 1959

The Honorable Joseph Campbell
The Comptroller General of
the United States
Washington 25, D. C.

Dear Mr. Campbell:

Since we had the pleasure of briefing you on 30 July, we have discussed further with Mr. Samuelson how the General Accounting Office's audit of this Agency might be improved. I believe that the General Accounting Office can expand its current audit activities in a considerable portion of the Agency, and in moving forward in this direction I feel that we should reach agreement on certain fundamental aspects.

In the Central Intelligence Agency Act of 1949, the Congress, recognizing some of the unique problems involved in the conduct of intelligence activities, provided broad authorities over the expenditure of said accounting for Agency funds. In particular, Section 8 of that Act (formerly Section 10) provides that expenditures for objects of a confidential, extraordinary, or emergency nature are "to be accounted for solely on the certificate of the Director and every such certificate shall be deemed a sufficient voucher for the amount therein certified." This wording does not contemplate the review of expenditures which the Director certified were made for confidential, extraordinary, or emergency purposes.

While all funds appropriated to the Agency are technically on an "unvouchered" basis, it has been my policy and that of my predecessors to limit the exercise of this special authority to those activities which in the national interest should have the maximum security protection. To the extent possible Agency funds are expended under the other provisions of the Central Intelligence Agency Act and the vouchers for these expenditures are available to the General Accounting Office. This policy has been exercised to such a degree that certain activities, not in themselves sensitive but conducted solely in support of highly confidential operations, are funded under general authorities without invoking my special authority to make final accounting therefor. A comprehensive audit of the sort now conducted by the General Accounting Office in other agencies, if applied to our so-called vouchered expenditures, would necessarily reach into the confidential operations which they support and which are protected by my special authority under Section 8 of the Act. In these instances, therefore, the comprehensive audit would have to be limited so as to remain outside the area of sensitive security operations.

In view of the statutory background, I trust that you will agree with the position set forth above. If you have any question I would be delighted to discuss the subject with you at your convenience. If we are in agreement on these fundamental principles, I suggest that your representatives continue to explore with my staff the manner in which the scope of the General Accounting Office's audit of the Agency may be broadened, consistent with the security requirements described above.

Sincerely,

(Signed) Allen W. Dulles
Allen W. Dulles
Director

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APPENDIX III

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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON 25

B-133300

October 21, 1959

**Honorable Allen Dulles, Director
Central Intelligence Agency**

Dear Mr. Dulles:

Your letter dated October 15, 1959, concerning a proposed extension of our audit of Central Intelligence Agency has been reviewed, and further discussions have been had between representatives of this Office and your Staff.

Your letter notes the unique problem involved in the activities of the Central Intelligence Agency and the broad authorization given you over the expenditures of and accounting for Agency funds. In recognition thereof, you indicate that an audit of the Central Intelligence Agency would have to be limited to reviews outside the area of sensitive security operations on:

- (1) Expenditures certified by the Director under Section 8 of the Central Intelligence Agency Act of 1949, as amended.
- (2) Certain activities in support of confidential operations protected by your authority under Section 8.

We agree that to the extent expenditures are certified by you as confidential, extraordinary, or emergency nature, such expenditures are not subject to examination by us without your concurrence.

In our comprehensive audits, we examine the organization structure, agency policies, and agency practices and procedures, together with a selective examination of actual transactions as a means of appraising the application of agency practices and procedures. As a result of the discussions with your Staff it seems possible for the General Accounting Office to expand its audit at the Central Intelligence Agency into a considerable part of the Agency's activities, even though our reviews would be outside the area of sensitive security operations. Despite the limitation, we believe as a result of the reviews we could make that we would be in a position to make evaluations of a substantial part of the administrative functions.

The Central Intelligence Agency presents problems on sufficient breadth of coverage and review of detail for the purpose of reaching sound evaluations, but we are willing to broaden our activities at Central Intelligence Agency within the principles expressed in your letter. However, in the event it

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appears after a trial period that our reviews are limited to such an extent that we cannot effectively and constructively accomplish any worthwhile objectives, we will have to consider whether the audit should be continued.

On the basis of the above, we are willing to have further discussions with your Staff in order that the audit may proceed.

Sincerely yours,

(Signed) Joseph Campbell
Comptroller General
of the United States

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APPENDIX IV

REVIEW OF SELECTED ACTIVITIES

OF

OFFICE OF CENTRAL REFERENCE

AND

OFFICE OF BASIC INTELLIGENCE

INTELLIGENCE COMPONENT

CENTRAL INTELLIGENCE AGENCY

As a part of the review of the Central Intelligence Agency (CIA) the General Accounting Office has reviewed selected overt activities of the Office of Central Reference (OCR) and the Office of Basic Intelligence (OBI), of the Intelligence Component. Based on our review, we believe that certain financing practices of the Intelligence Component should be changed. CIA is financing: (1) certain Library of Congress activities which substantially transcend CIA's interest and responsibility, and (2) certain Department of State activities which do not seem to be CIA's primary responsibility, and such financing may have the effect of supplementing the annual appropriations of the Department of State. We have been advised that corrective action is being taken by CIA.

These findings, together with the comments of appropriate CIA officials, are presented below. The findings should not be considered typical of the entire program of the Intelligence Component, because, to the extent of our review, we found no other significant areas requiring corrective action.

Projects transcending CIA interest and responsibility to be revised

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The OCR budget for fiscal year 1961 includes [REDACTED] for two projects at the Library of Congress: The Monthly Index of Russian Accessions (MIRA), and the East European Accessions Index (EEAI).

The MIRA and EEA1 projects supported by OCR result in monthly publications by the Library of Congress. These publications record and index those Russian and East European monographs and periodicals overtly obtained by the Library of Congress and a group of cooperating libraries. We understand the information contained in these publications is in the files of the Library. The publications produced are primarily distributed to public and private research organizations and libraries in the United States and many foreign nations, including those of the U.S.S.R. and its satellites. These projects, in our opinion, substantially transcend CIA's responsibility for providing a central reference facility as a service of common concern for the intelligence community. We have been advised that based on a review of the needs of the

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intelligence community, it has been determined that CIA no longer can justify major support of the two indexes because of changed intelligence needs. CIA will continue to support the Library, however, for the preparation of certain Sino-Soviet Bloc biographic cards. These cards have grown in importance from a by-product to the most valuable part of the project. Our detailed comments on this subject are presented below.

25X1A With the financial support of the Rockefeller Foundation, the Library began publishing in April 1948 a Monthly List of Russian Accessions, now known as the MIRA project. The project was supported by the Air Force during the period from July 1949 through March 1950. CIA support for the project was requested by the Library for the period from April through June 1950, but the request was disapproved by the CIA Projects Review Committee because the project was considered at that time to be of general public interest only and therefore not directly an intelligence function. The Library supported the project during the period from April 1950 through December 1951, and again requested CIA support for the project in October 1951. This revised request, which was approved by the CIA Projects Review Committee in November 1951, proposed that the intelligence value of the publication would be strengthened by including translations of the tables of content of current periodicals, and a subject index. CIA provided about [redacted] to the Library for the support of the project during the remainder of fiscal year 1952, and has been the principal source of funds for this publication since that time. The OCR budget provides for the expenditure of about \$402,000 for the support of this project in fiscal year 1961.

Under the confidential sponsorship of the Plans Component, the Library began publishing late in 1951 an East European Accessions List, now known as the ERAI project. The Plans Component provided about [redacted] to support this project in fiscal year 1952, and continued to support the operation through its budget until fiscal year 1960. We understand that OCR assumed financial support of the project in fiscal year 1960 because Plans Component cover for the project was no longer necessary. The OCR budget provides for the expenditure of about [redacted] for the support of this project in fiscal year 1961.

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Our review of the MIRA and ERAI distribution lists for December 1960 disclosed that research organizations and libraries in the United States and many foreign nations, including several in the U.S.S.R. and its satellites, are the principal recipients of the two publications. Of the approximately 2,400 copies of MIRA and ERAI distributed during that month, about 2,000 were made available to public and private research organizations and libraries, 200 were sent to other Government agencies, and 200 were retained by the Library. We understand that the 200 copies retained by the Library are distributed among the components of the Library and the agencies of the intelligence community. Only 600 of the 2,400 copies distributed are issued on a subscription basis, the cost of which ranges from \$10 to \$16 a year. The remaining copies are distributed without charge.

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The Assistant Director, Office of Central Reference (AD/OCR) stated that because of an annually expanding work-load and operating cost, it became necessary for OCR to seek additional financial support for the projects in fiscal years 1960 and 1961. He pointed out that the Library refused in May 1959 to assume any of the financing for these two publications on the basis that their continued publication was not important to the Library because the information they contain is in the Library's files. Additional funds totaling [redacted] were made available to the Library in fiscal year 1960 by the National Science Foundation (NSF), National Aeronautics and Space Agency (NASA), and the Atomic Energy Commission (AEC). We understand that a similar amount will be made available from the budgets of these three agencies for fiscal year 1961. Only the AEC, however, is specifically designated by the intelligence directives of the National Security Council to be a member of the intelligence community. The AD/OCR also advised us that the NSF proposes to undertake in fiscal year 1961 a survey to determine how MIRA is used by recipients, and that he has suggested the survey be expanded to explore the prospects for obtaining funds for the production of both publications from appropriate learned societies and foundations. He stated, however, that the contract for the proposed survey was to his knowledge in December 1960 still in the process of negotiation, and that he was not aware of the precise scope of the contract.

We do not question CIA's need for bibliographic material in the discharge of its responsibility for providing the intelligence community with a central reference facility. We believe the publication of these bibliographic materials, however, primarily serves the needs of public and private research organizations and libraries and therefore, is a function of the Library. It is our opinion therefore, that it would be more appropriate to finance the related costs through the appropriations of the Library rather than of CIA.

We suggested that CIA take action to reappraise the specific needs of the intelligence community for this bibliographic material, and based on this reappraisal, make necessary arrangements to obtain or support only those bibliographic activities necessary to the production of material to meet the specific needs of the intelligence community.

CIA undertook reappraisal action which disclosed that intelligence needs for the two indexes have changed and that (1) demand for the continuation of KEAI was negligible, (2) the NSF sponsored survey buttressed their original decision not to support KEAI and caused them to reconsider support of MIRA, and (3) MIRA should be adapted to meet changing requirements since, for example, the biographic cards have grown in importance from a by-product to the most valuable part of the project. Based on these findings, CIA advised the United States Intelligence Board Committee on Documentation (CODIB) that CIA plans to (1) phase out the KEAI as rapidly as it is reasonable for the Library to do so, (2) maintain support of MIRA for fiscal year 1962 in order to enable NSF to define the requirements of the American scientific community for such bibliographic services, and to permit the Library to adjust to a possible change in the present publication, and (3) continue support to the Library for the preparation of

biographic cards on the Sino-Soviet Elec.

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We were advised on June 16, 1961, that the CIA findings and plan concerning the curtailment of CIA support to the Library for EEAI and MIRA have been reviewed by CODIS and the United States Intelligence Board, and that CIA is going ahead with the planned curtailment. CIA may achieve a saving of about [REDACTED] annually under this plan.

CIA funds may supplement appropriations
of the Department of State

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The fiscal year 1960 and 1961 budgets of OCR and OBI provide for an annual expenditure of about [REDACTED] for the purpose of supporting projects undertaken by other Government agencies. About [REDACTED] of this annual amount concerns activities that seem to be the assigned responsibility of the Department of State, not of OCR and OBI, which may have resulted in supplementing the annual appropriations of the Department. In addition, some of the CIA financed effort of the Department of State is diverted to other activities usually financed from the salary and expense appropriations of the Department.

OCR is responsible for providing the overall direction and administrative support required to maintain CIA's centralized reference service, and OBI is responsible for discharging the responsibilities of the Director of Central Intelligence for the administration of the National Intelligence Survey (NIS) program. In the discharge of these responsibilities, both OCR and OBI sponsor through their annual operating budgets a number of continuing projects at other Government agencies. Advances or reimbursements to finance these projects are made by OCR and OBI under the authority of section 601 of the Economy Act of 1933, and section 5(a) of the Central Intelligence Agency Act of 1949. Under these acts, CIA is authorized to make advances or reimbursements for the procurement of goods and services to carry out its responsibilities.

CIA finances under the cited acts the intelligence production activities of the Biographic Information (BI) and National Intelligence Survey (NIS) projects of the Department of State. These projects produce intelligence in areas that seem to be the primary responsibility of the Department, however, and some of the CIA financed NIS effort of the Department is diverted to activities usually financed from the salary and expense appropriations of the Department. CIA's financial support of these projects may supplement the appropriations of the Department. The Congress has been advised that the CIA financed NIS activity of the Department is not a reimbursable project. It is not apparent, however, that Congress has been advised of the diversion of effort from the Department's CIA financed NIS activity. Our detailed comments on this subject are presented below.

The intelligence directives of the National Security Council assign to the Department primary responsibility for producing political and sociological intelligence on all countries, and economic intelligence on countries outside the Sino-Soviet Bloc, as a service of common concern to the Intelligence community. Under arrangements made between CIA and the Department, the BI and NIS projects furnish CIA with biographic and basic intelligence in these same fields of interest.

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CIA's financing of the Department's BI project was undertaken as the result of a CIA staff study completed in September 1952. This study disclosed that biographic intelligence on non-scientific personalities was then being processed and serviced by both the Department and CIA, and proposed that this duplication of effort be eliminated by working out satisfactory arrangements with the Department for the servicing of CIA requests for biographic intelligence on these personalities. This proposal was approved by the Deputy Director (Intelligence) and an agreement under which the Department assumed full responsibility for servicing CIA requirements by not later than July 1, 1953, was negotiated in November 1952. Under the terms of this agreement, which we were advised is still in effect, the Department provides complete biographic service to CIA on foreign political, sociological, and cultural personalities. CIA provides the necessary funds computed on the basis of the additional cost incurred by the Department in rendering this service to CIA. We understand that the Department also services CIA requests for biographic intelligence on economic personalities from countries outside the Sino-Soviet Bloc although the terms of the November 1952 agreement do not provide for this service. The annual cost to CIA for the support of this project increased from about \$130,000 in fiscal year 1954 to a proposed [REDACTED] for fiscal year 1961.

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The NIS project produces a comprehensive digest of basic intelligence on foreign areas. The digest is designed to serve fully the strategic and operational requirements of the Department of Defense, the foreign policy requirements of the Department of State, and the lower planning and operational requirements of all other Government agencies having missions or responsibilities in foreign areas. The NIS project formally began with the issuance in January 1948 of National Security Council Intelligence Directive No. 3. This directive provides that the Director of Central Intelligence shall be responsible for coordinating production and maintenance of the NIS; for their review, publication, and dissemination; and for making such requests of the departments and agencies as are necessary for their proper development and maintenance. Under an arrangement worked out in 1948, the Department assumed responsibility for producing or coordinating all political, sociological, and other than Sino-Soviet Bloc economic intelligence contributions to the NIS project, and CIA assumed responsibility for financing the effort of the Department. The annual cost to CIA of supporting the NIS project of the Department increased from about [REDACTED] in fiscal year 1949 to [REDACTED] in fiscal year 1959. The annual cost to CIA declined to about [REDACTED] in fiscal year 1960, however, and is budgeted by CIA at [REDACTED] annually for fiscal years 1961 and 1962.

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All BI and NIS contributions of army, naval, and air intelligence are financed through the budgets of the Army, Navy, and Air Force in accordance with their assigned responsibilities, and without the financial support of CIA.

We understand that since 1952 the Department has diverted the efforts of its employees from the CIA financed NIS project to activities financed by the annual salary and expense appropriation of the Department. Such diversion accounted for about 34 man years or 12 percent of the 278 man years charged CIA for the NIS project in fiscal year 1959, and about 36 man

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years or 15 percent of the 240 man years charged CIA in fiscal year 1960. The Department did not fulfill about 12 percent and 15 percent of its NIS production schedule for the respective fiscal years of 1959 and 1960. The decline in Department production under the NIS project, we understand, was one of the factors considered in arriving at the reduced CIA expenditure budgets for the NIS project in fiscal years 1960 through 1962.

The propriety of financing the NIS operation of the Department through the CIA budget was discussed in the Department of State fiscal year 1960 appropriation hearings held before the Subcommittee of the Committee on Appropriations, House of Representatives. The Department requested this Committee to approve budgeting for the Department's NIS operation as a separate activity under its salary and expense appropriation. The Committee did not approve the request with the expectation that the operation would be carried on and financed as in the past several years. This arrangement was concurred in by the Senate Committee on Appropriations. One of the factors considered in reaching this conclusion was the request of the Department for 13 more positions for the NIS activity in fiscal year 1960 than were available in fiscal year 1959. The Department's fiscal year 1960 salary and expense appropriation request for other than the NIS activity, however, did not provide for an increased number of positions although 34 man years and 36 man years were diverted from the CIA financed NIS project to the other salary and expense activities of the Department during fiscal years 1959 and 1960, respectively. The hearings do not disclose whether the committees were advised of the 34 man years diverted by the Department from its CIA financed NIS project in fiscal year 1959.

The question of diversion of effort from the CIA financed NIS project was discussed with the Assistant Director, Office of Basic Intelligence (AD/OBI), and the Chief, Budget Division, Office of the Comptroller. The AD/OBI stated that diversion under the CIA financed NIS project during the first 6-months of fiscal year 1961 was reduced to about 11 man years, or a projected total of 22 man years for the entire fiscal year, and he advised us that both OBI and the Department are striving for an annual diversion of about 5 percent of the man years budgeted for the project. He stated that diversion at this rate is necessary, in his opinion, if the Department is to maintain sufficient flexibility to carry out its intelligence functions, and pointed out that CIA suffers no loss because of such diversion since the diversion of effort increases the overall intelligence available to the intelligence community. He stated also that he is firmly opposed to reducing CIA support to the NIS project of the Department by an amount equal to the cost of the man years diverted because this procedure would, in his opinion, reduce substantially the flexibility needed by the Department in directing its intelligence effort. The AD/OBI also pointed out that all agencies charged with responsibilities for making contributions to the NIS project, except the Department, have in the past opposed proposals for centralized CIA budgeting for the NIS project because of their need to keep intelligence units functioning for operational purposes.

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The Chief, Budget Division, stated that CIA policy with respect to the question of diversion under the CIA financed MIS project of the Department is currently under study. He stated also that to his knowledge, a problem of diversion does not exist under the CIA financed BI project of the Department, or under any other CIA financed project at other Government agencies.

Transfers of CIA funds for the purpose of supporting activities that are the primary responsibility of the Department and not the primary responsibility of CIA, in our opinion, are not authorized by section 601 of the Economy Act of section 5 (a) of the Central Intelligence Agency Act of 1949. The BI and MIS activities seem to be the primary responsibility of the Department of State, not of OCR and OBI. The average annual diversion of about 35 man years from the CIA financed MIS project to activities financed by the salary and expense appropriation of the Department for fiscal years 1959 and 1960 circumvents the intent of Congress by supplementing the salary and expense appropriation of the Department by about [REDACTED] annually.

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To avoid supplementing the annual appropriations of the Department of State, we suggested that CIA discontinue paying the Department for man years diverted from the CIA financed MIS project. We suggested, also, that the Director of Central Intelligence reappraise the assignment of responsibilities between CIA and the Department of State in relation to the funds available to each of these agencies, and, if necessary, obtain additional authority from the Congress for the transfer of funds to carry out the BI and MIS responsibilities of the Department of State.

The Deputy Director (Support) advised us by letter dated April 13, 1961, that the Department of State and CIA have been considering the possible transfer of the Department's BI and MIS activities to CIA. By letter dated April 29, 1961, CIA advised State that CIA agreed in principle with the proposed transfer to CIA of those portions of the BI and MIS activities which have heretofore been performed by State.

The General Counsel, CIA, advised us by letter dated July 28, 1961, that the preparation and dissemination of intelligence relating to the national security is basically a responsibility of CIA. In his opinion, therefore, it may be the responsibility of CIA in certain instances to reimburse all or a portion of the costs incurred by other agencies who have basic competence in the field of a particular contribution, but must go to additional expense in making their contributions responsive to MIS needs.

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